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FOR ACTION

A SELF-FINANCING SUPPLY DIVISION

SUMMARY

The present report was prepared in response to comments made by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) concerning the difficulty of establishing the actual cost of UNICEF supply operations. ACABQ, which made these comments in its report on the UNICEF administrative and programme support budget for 1994-1995 (E/ICEF/1993/AB/L.2), suggested that steps be taken to represent more clearly, as part of the budget, the real cost of supply activities to the organization.

The Executive Director recommends that the Executive Board decide that the UNICEF Supply Division shall become a self-financing unit, within the structure of the administrative and programme support budget.

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I. A SELF-FINANCING SUPPLY DIVISION

1. The report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) on the UNICEF administrative and programme support budget for 1994-1995 (E/ICEF/1993/AB/L.2) drew attention to the difficulty of establishing the actual cost of UNICEF supply operations and suggested that steps be taken to represent more clearly, as part of the budget, the real cost of supply activities to the organization. The proposal which follows addresses the reservations contained in the ACABQ report.

2. In 1993, the UNICEF Supply Division placed in excess of 12,000 orders, all from Copenhagen and New York, with more than 3,000 suppliers. If the total volume of purchases placed worldwide is included, the number rises to more than 23,000.

3. All UNICEF purchasing activities are managed from Copenhagen, although the value and proportion of UNICEF procurement from developing countries is higher than that of any other United Nations organization, amounting to $101 million in 1993.

4. Given the increasing contribution of the UNICEF Supply Division both to development assistance and to emergency relief, the observation of ACABQ about the lack of transparency with regard to the costs of UNICEF supply activities presents a timely opportunity to introduce a clearer presentation of the Supply Division budget. Other observations made by ACABQ concerning the structure of the Supply Division and the continuing split of the Division between New York and Copenhagen will be addressed in the administrative and programme support budget for 1996-1997, which will be presented to the Executive Board in 1995.

5. At present, the Supply Division budget has four subdivisions: (a) Copenhagen administration; (b) Copenhagen warehouse; (c) New York administration; and (d) category III - packing and assembly activities.

6. Before 1983, the warehouse was a separate, self-financing entity with a variable overhead recovery which financed the costs of warehousing and packing. After consolidation, a "category III" of the UNICEF budget, consisting of the costs of warehouse labour and packing materials, was created as a charge to the budget. These costs should more correctly be presented as a charge on programmes. The "overhead" on supplies entering the warehouse was fixed at 10 per cent in 1983 and forms the major part of the line "income to the budget" in the administrative budget.

7. All operating costs of the Supply Division (heating, electricity, equipment, etc.) for both the purchasing activity and the warehouse are charged to general resources through the administrative and programme support budget. Staff and related costs, however, are paid from three sources: (a) general resources; (b) supplementary funds; and (c) procurement services. None of the operating costs are set against the recovery generated by charges on deliveries from the warehouse. This "recovery" is currently credited as income to the administrative budget.

8. The present mechanism for budgeting the costs of the supply operation and accounting for expenditures does not permit a transparent presentation of the cost of Supply Division activities in relation to the expenditure on supplies and equipment, which totalled $373 million in 1993. This lack of clarity is compounded by charging programme delivery costs, in the form of the contracted warehouse labour used for packing of warehouse supplies and the packing materials for those supplies, to the administrative and programme support budget.

9. Although the major function of the Supply Division is to provide supplies and equipment to UNICEF-assisted programmes, a significant secondary workload is generated by requests for procurement services by Governments, non-governmental organizations and other United Nations bodies. However, the Supply Division in effect receives orders from customers and fills those orders, whether they are for items shipped directly from suppliers or items shipped from the warehouse, or whether they are for UNICEF or non-UNICEF customers.

10. As the Supply Division operates a complete purchasing, warehousing and packing function, it is more appropriate, from an accounting and cost-recovery perspective, that all external and internal "customers" pay for the purchasing services from which they benefit.

11. The Executive Director proposes the creation, within the UNICEF budget structure, of a self-financing Supply Division which will charge each "customer", whether a UNICEF country office or a procurement services client, a fee for the service of purchasing and delivering the requested supplies. Thus, all costs will be financed from a charge made for the provision of purchasing and warehousing services, whether to UNICEF-assisted programmes or procurement services customers.

12. The procurement services account will continue to be managed separately, but all income to the account, after the payment of staff and related costs, will be credited to the Supply Division account. The first charge on the income generated from general resources and supplementary funds purchases will also be for staff and related costs. Other operational costs will be offset against the balance of the income generated.

13. It should be noted that the proposal to eliminate the 6 per cent recovery and charge the staff and related costs to the administrative and programme support budget (E/ICEF/1994/AB/L.2) will change the presentation of the Supply Division budget but will not change the overall costs or the proposed concept.

14. An accounting system appropriate to the needs of the cost-recovery process will be established, although the presentation of the Supply Division budget will continue to follow the format mandated by the Executive Board. The income generated will be applied to "production" (inventory and purchasing costs) through the full cost or absorption costing method, i.e., a cost accounting system wherein the full costs of producing the goods are "absorbed by" or charged as product cost. At the end of the year, income exceeding the actual costs will be credited to general resources as miscellaneous income. If the costs of the Supply Division operation exceed the income generated, the excess

will form an additional charge to the budget in the same manner as costs exceeding other budgetary allotments are presently covered.

15. The proposed format for the presentation of the Supply Division budget is shown in annex I. An accompanying change will be required in the Executive Board's budget resolution, which it is proposed would read as follows:

> "The Executive Board approves appropriations in the amount of $xxx,xxx,xxx gross, to be allocated from the resources indicated below, to finance the 19XX-19XX biennial budget and resolves that the recovery and income estimates in the amount of $xx,xxx,xxx shall be used to offset the gross appropriations, resulting in net appropriations of $xxx,xxx,xxx as indicated below."

16. A number of advantages of the Supply Division operating as a self-financing unit are discussed in detail in annex II.

II. RECOMMENDATION

17. The Executive Director recommends that the Executive Board approve the following draft resolution:

The Executive Board,

Having considered the proposal contained in document E/ICEF/1994/AB/L.9,

Taking into account the observations of ACABQ,

Decides that the UNICEF Supply Division shall become a self-financing unit within the structure of the UNICEF administrative and programme support budget. The new format for the presentation of the Supply Division budget will be considered by the Executive Board as part of the proposed administrative and programme support budget for the biennium 1996-1997, along with the observations of ACABQ.

Annex I

PROPOSED FORMAT FOR PRESENTATION OF THE SUPPLY DIVISION BUDGET
AS PART OF THE ADMINISTRATIVE AND PROGRAMME SUPPORT BUDGET

(Thousands of United States dollars)

	APPROVES	TAKES NOTE OF	
	Gross/net budgets	Extra-budgetary income a/	Total gross/net budget
1. Administrative and programme support b/			
Category 1a - International Professional costs	xxx,xxx.x	-	xxx,xxx.x
Category 1b - Local staff costs	xxx,xxx.x	-	xxx,xxx.x
Category 2a - General operating costs - headquarters	xxx,xxx.x	-	xxx,xxx.x
Category 2b - General operating costs - field	xxx,xxx.x	-	xxx,xxx.x
GROSS BUDGET	xxx,xxx.x	-	xxx,xxx.x
Estimated income	xx,xxx.x	-	xx,xxx.x
NET BUDGET	xxx,xxx.x	-	xxx,xxx.x
2. Supply operations			
Category 1a - International Professional costs	xx,xxx.x	xx,xxx.x	xx,xxx.x
Category 1b - Local staff costs	xx,xxx.x	xx,xxx.x	xx,xxx.x
Category 2a - General operating costs	xx,xxx.x	xx.x	xx,xxx.x
Category 3 - Packing and assembly costs	xx,xxx.x	xx.x	xx,xxx.x
GROSS BUDGET	xx,xxx.x	xx,xxx.x	xx,xxx.x
Estimated recoveries/income	xx,xxx.x c/	xx,xxx.x	xx,xxx.x
NET BUDGET	x.x	x.x	x.x
3. TOTAL UNICEF BUDGET			
Category 1a - International Professional costs	xxx,xxx.x	xx,xxx.x	xxx,xxx.x
Category 1b - Local staff costs	xxx,xxx.x	xx,xxx.x	xxx,xxx.x
Category 2a - General operating costs - headquarters	xxx,xxx.x	xx,xxx.x	xxx,xxx.x

	APPROVES	TAKES NOTE OF	
	Gross/net budgets	Extra-budgetary income a/	Total gross/net budget
Category 2b - General operating costs - field	xxx,xxx.x	xx,xxx.x	xxx,xxx.x
Category 3 - Packing and assembly costs	xx,xxx.x	xx,xxx.x	xx,xxx.x
GROSS BUDGET	xxx,xxx.x	xx,xxx.x	xxx,xxx.x
Estimated recoveries/income	xx,xxx.x	xx,xxx.x	xx,xxx.x
NET BUDGET	xxx,xxx.x	xx,xxx.x	xxx,xxx.x

a/ Extrabudgetary income represents income from external resources earned through procurement services to third parties.

b/ The Executive Director is permitted to redeploy between categories up to a maximum of 5 per cent.

c/ Recoveries represent charges to UNICEF programmes.

Annex II

ADDITIONAL INFORMATION: A SELF-FINANCING SUPPLY DIVISION

1. Since the creation of UNICEF, supplies and equipment have been an important component of its development assistance. In the 1940s and 1950s, UNICEF assistance in Europe and parts of Asia consisted almost exclusively of supplies in the form of food, clothing and medicines. As the organization evolved, the proportion of assistance made up of supplies and equipment diminished; it now forms approximately 50 per cent of UNICEF development assistance provided to more than 130 countries.

2. Recently, the provision of emergency assistance to such countries as Somalia and Liberia, as well as to the former Yugoslavia, has placed a new emphasis on the warehousing and set packing operations of the Copenhagen warehouse. However, the warehouse throughput still constitutes less than 30 per cent of the total supply component of development assistance provided by UNICEF.

3. The main function of the Supply Division is to provide the material component of the country programmes supported by UNICEF from general resources and supplementary funds income. These two sources each represent approximately 40 per cent of supply purchases. The Supply Division is increasingly providing procurement services to developing country Governments, non-governmental organizations (NGOs) and other United Nations organizations by acting as a purchasing agent. These activities make up the remaining 20 per cent of the purchasing activity.

Scope of presentation

4. In addition to the comments made by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) about the lack of transparency regarding the costs of the Supply Division (see paragraph 1 of section I above), ACABQ also commented on the existing structure and the continuing split of the Division between Copenhagen and New York. Those concerns are not addressed in the present report, but will be addressed as part of the 1996-1997 administrative and programme support budget, which will be presented to the Executive Board, after review by ACABQ, in 1995.

5. The present report deals with a proposed revision in the budget presentation in response to the observation by ACABQ on the difficulty of establishing the true cost of supply activities. The report also explains how the costs will be recovered and how surpluses and deficits will be dealt with.

Present budgetary structure

6. The Supply Division budget is part of the overall administrative and programme support budget and has four subdivisions: Copenhagen administration; Copenhagen warehouse; New York administration; and category III - packing and assembly activities. The Division's budget is presented to the Executive Board in the format established by the Board.

7. Before the consolidation of the Supply Division at Copenhagen in 1983, the warehouse was a separate, self-financing entity. The "overhead" added to all supplies passing through the warehouse was based on a variable recovery (between 9 and 14 per cent), which financed the costs associated with the warehouse and the packing operation. At the time of consolidation, the budget for the warehouse became a part of the overall Supply Division budget. However, at that time the warehouse operation was not fully incorporated, as an expense, into the budget. Category III, consisting of the costs of warehouse labour and packing materials, was created as a charge to the budget, although these costs are directly associated with the delivery of supply assistance. They should more correctly be presented as a charge on programmes. The "overhead" on supplies entering the warehouse was fixed at 10 per cent in 1983 and forms the major part of the budget line, "income to the budget". The recovery generated from procurement services orders on the warehouse is treated as income to UNICEF and credited to the procurement services account. Procurement services income and expenditure are explained further below.

8. The operating costs of the Supply Division (heating, electricity, equipment, etc.) for both the purchasing activity and the warehouse are all charged to general resources through the administrative and programme support budget. Staff and related costs, however, are paid from three sources: (a) general resources; (b) supplementary funds; and (c) procurement services. As the recovery generated by the 10 per cent charge on deliveries from the warehouse is accounted as a general credit to the budget, no specific supply costs are debited against this income.

Shortcomings of the present structure

9. The present mechanism for budgeting the costs of the supply operation and accounting for expenditures does not permit a transparent presentation of the cost of Supply Division activities in relation to the expenditure on supplies and equipment, either in respect of direct purchasing ($272 million by the Supply Division in 1993) or in respect of warehouse throughput ($112 million in 1993). In addition to that direct purchasing, a further amount of $101 million was authorized by the Supply Division for purchase by UNICEF offices in assisted countries. Therefore, total purchases of supplies and equipment by the Supply Division from all sources in 1993 were $373 million.

10. The lack of clarity in the presentation of the costs of the Supply Division is compounded by charging programme delivery costs, in the form of the contracted warehouse labour used for packing of warehouse supplies and the packing materials for those supplies, to the administrative and programme support budget.

Reasons to change

11. The major function of the Supply Division is to provide a service to UNICEF-assisted programmes. The primary workload is generated by supply call-forwards issued by country offices for the provision of supplies and equipment for UNICEF-assisted development programmes.

12. As stated in section I above, these supplies may be funded either from general resources or supplementary funds income. A secondary workload is generated by requests for procurement services by Governments, NGOs and other United Nations bodies. However, the Supply Division in effect receives orders from customers and fills those orders, whether they are for items shipped directly from suppliers or items shipped from the warehouse, or whether they are from UNICEF or non-UNICEF customers. The purchasing and delivery of supplies is, therefore, independent of individual country programme activity, although input is provided to each programme. Therefore, UNICEF-assisted country programmes could be considered as discrete customers, as are procurement services clients.

13. The purchasing and warehousing operations are funded from a mixture of general resources, supplementary funds and procurement services. At present, procurement services recipients pay a handling fee for the services they receive. As the Supply Division operates a complete purchasing, warehousing and packing function, it is more logical, from an accounting and cost-recovery perspective, that all "customers" pay for the purchasing services from which they benefit.

How this can be achieved: proposal for clarity

14. The Executive Director proposes the creation, within the UNICEF budget structure, of a self-financing activity which will charge each "customer", whether a UNICEF country office or a procurement services client, a fee for the service of purchasing and delivering the requested supplies.

The self-financing Supply Division

15. Creating a self-financing Supply Division will require that the manner in which the UNICEF budget is presented be revised. All the costs of the Supply Division will be financed from a charge to UNICEF-assisted programmes and procurement services customers made for the provision of purchasing and warehousing services.

16. The Division's income will be generated by charging a fee for the purchase of supplies and equipment for direct shipment and from the overhead charge on purchases for warehouse re-stocking. The fee would be a fixed percentage of the cost of purchases against general resources, supplementary funds and procurement services orders.

17. The procurement services account would continue to be managed separately, but all income to the account, after the payment of staff and related costs, would be credited to the general Supply Division account. The first charge on the income generated from general resources and supplementary funds activity would be for staff and related costs.

18. The 1994-1995 budget provides for staff costs to be split as follows: (a) general resources, 40 per cent; (b) supplementary funds, 40 per cent; and (c) procurement services, 20 per cent.

19. All other operational costs of the Supply Division will be offset against the income generated.

20. An accounting system appropriate to the needs of the cost-recovery process will be established, although the presentation of the Supply Division budget will continue to follow the format mandated by the Executive Board. The overhead costs will be applied to "production" (inventory and purchasing costs) through the full cost or absorption costing method, i.e., a cost accounting system wherein the full costs of producing the goods are "absorbed by" or charged as product cost. At the end of the year, income exceeding the actual costs would be credited to general resources as miscellaneous income. If the costs of the Supply Division operation exceed the income generated, the excess will form an additional charge to the budget in the same manner as costs exceeding allotments are presently covered. It is unlikely that the cost-recovery process envisaged would result in expenditure greater than the allotment, but that possibility should be foreseen.

21. The following advantages will result from the Supply Division operating as a self-financing unit:

(a) The price of warehouse items will be reduced by the difference between the currently applied overhead and that necessary to cover actual costs;

(b) The UNICEF budget will be simplified by the correct charging of warehouse costs into a revised category III. Labour in the warehouse will become an integral part of the overhead recovery and packing materials will be charged to each shipment as a warehouse stock item;

(c) Accounting, monitoring and controlling as a self-financing unit will provide:

(i) A more accurate basis for establishing and adjusting the predetermined overhead recovery rate;

(ii) A clear basis for measuring the cost of operations and for strengthening internal operational controls;

(iii) A tool for the control of expenditure;

(d) Compliance with generally accepted accounting practices and auditing standards;

(e) The proposal is fully consistent with the concept of financial accountability.

Cost recovery

22. There will be four categories of activity that will bear a charge: (a) direct warehouse costs; (b) indirect warehouse costs; (c) indirect costs of goods not shipped through the warehouse; and (d) procurement services.

23. In order to illustrate the concept, the following assumptions are made:

(a) Warehouse throughput for the biennium 1994-1995 will be $200 million;

(b) Purchasing for direct shipment in 1994-1995 will be $500 million (general resources and supplementary funds purchases combined);

(c) Procurement services income in 1994-1995 will be $5 million;

(d) The total Supply Division operating cost for the 1994-1995 biennium will be $45 million.

It is also assumed that administrative and programme support budget plus staff costs and travel and training for staff will be funded from procurement services income and from the recovery charge on supplementary funds (see E/ICEF/1994/AB/L.2).

24. The recovery of Supply Division expenses will be assured in the following manner: a charge, calculated as a percentage of the value of a transaction, will be levied on all warehouse issue orders and on all purchase orders placed for direct shipment against UNICEF funds.

25. Assuming a warehouse throughput of $200 million during the biennium 1994-1995 and direct costs of 5 per cent and indirect costs of 4 per cent for the operation of the warehouse during this period, an income of $18 million would be generated, that is 9 per cent of $200 million.

26. Assuming a purchase order value of $550 million during the biennium and estimating the costs of purchasing at 4 per cent of that value, an income of $22 million would be generated.

27. Assuming that procurement services income would continue at the 1993 level, $5 million would be generated.

28. Therefore, the total income would be $45 million. The Supply Division budget for the biennium is estimated at $43 million. This example uses the 1994-1995 biennium budget as an illustration of the proposed mechanism.

29. The accounting procedures to accommodate the cost-recovery process will be developed separately.

30. The current level of charges for procurement services (6 per cent for warehouse and vaccine orders and 8 per cent for direct shipment transactions) will be retained. Since the number of staff charged to this source of income has been reduced, it has been established that the current charges cover the expected expenditure.

31. Clarity of budget presentation and a direct relationship between the provision of services and the cost of those services will permit an accurate assessment of the cost of supply input to country programmes.

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FOR ACTION

REVIEW OF THAT PART OF THE UNICEF GREETING CARD AND RELATED OPERATIONS LOCATED IN MANHATTAN

SUMMARY

The present report was prepared in response to Executive Board decision 1993/26 (E/ICEF/1994/17) on headquarters office accommodation, in which the Board requested the Executive Director to review that part of the Greeting Card and related Operations (GCO) located in Manhattan with the aim of ensuring its most efficient and cost-effective operation, including its location, and to report thereon to the Board in 1994.

The Executive Director undertook that review as part of the preparation of the GCO work plan and budget for 1994, which was approved by the Executive Board at its 1994 annual session (E/ICEF/1994/13 (Part III), decision 1994/A/9). As a result, the Executive Director recommends that the Executive Board decide that GCO, in the interest of providing the best service to its partners in optimizing income from the private sector for UNICEF-supported country programmes, continue to maintain staffing levels in New York and Geneva as outlined in the present report and as approved by the Executive Board in the 1994 work plan (E/ICEF/1994/AB/L.6).

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I. BACKGROUND

1. In decision 1993/26 (E/ICEF/1994/17) on headquarters office accommodation, the Executive Board requested the Executive Director to review that part of the Greeting Card and related Operations (GCO) located in Manhattan with the aim of ensuring its most efficient and cost-effective operation, including its location, and to report thereon to the Board in 1994.

2. Even prior to the Executive Board's decision, in 1992, GCO had begun to examine its efficiency and cost-effectiveness by conducting a year-long comprehensive internal management review. As a result of that examination, which was undertaken in consultation with National Committees for UNICEF, GCO revised its organizational structure to strengthen its overall capabilities to provide better assistance to National Committees and field offices in increasing the financial resources available to UNICEF from the private sector. The results of the review were described in the GCO work plan and budget for 1993 (E/ICEF/1993/AB/L.6), which were approved by the Executive Board at its 1993 regular session (E/ICEF/1993/14, decision 1993/24).

3. Following the Board's 1993 session, GCO began to implement the decision of the Executive Board with regard to the reorganization along functional lines and to follow up on all the strategic plans approved by the Board. Thus, GCO was able to conduct the studies, evaluations and research required to increase product sales, enhance private-sector fund-raising income and streamline operations. Those measures were described in the GCO work plan and proposed budget for the 1994 season (E/ICEF/1994/AB/L.6), which were approved by the Executive Board at its 1994 annual session (E/ICEF/1994/13 (Part III), decision 1994/A/9). The steps taken to streamline operations included a net reduction of 38 posts, the redeployment of 7 international Professional posts to the field, the consolidation of production facilities in North America and Europe and the establishment of regional support centres in Asia and Latin America.

4. Currently, GCO headquarters staff are divided between two locations, New York and Geneva. Geneva is an important location because some 75 per cent of GCO business is in Europe and because of the proximity of the National Committees, 25 (out of 35 total) of which are located in Europe. As approved by the Executive Board in May 1994, there are 80 GCO posts in Geneva (36 international Professional and 44 General Service) servicing the National Committees and covering marketing, private-sector fund-raising, operations and finance, as well as 9 posts (1 international Professional and 8 General Service) in the European warehouse and distribution centre.

5. In Manhattan, the Executive Board has approved 89 posts (41 international Professional and 48 General Service). There are also 7 posts (2 international Professional and 5 General Service) at the distribution centre located outside Manhattan. The Manhattan-based staff work in the areas of marketing, private-sector fund-raising, operations and finance, focusing on North and South America and Asia.

II. REVIEW OF THE GREETING CARD AND RELATED OPERATIONS

6. In preparing the 1994 work plan and budget, the Executive Director bore in mind the Executive Board's request for a review of that part of GCO which is located in Manhattan, and indeed such a review was part of the preparatory process. The review focused on the need to avoid duplication, increase efficiency and provide the best possible service both to National Committees and field offices. As a result, for example, as stated in paragraph 3 above, seven posts were redeployed from headquarters to the field.

7. The Executive Director also considered various alternatives for the location of GCO, considering both the financial and the non-financial factors of these alternatives. The various scenarios reviewed were: (a) maintaining the status quo, as outlined in paragraphs 4 and 5 above, and as approved by the Executive Board in decision 1994/A/9; (b) consolidation of the staff now based in New York and Geneva in New York; and (c) consolidation of those staff in Geneva. The financial and non-financial costs of those scenarios are reviewed below.

Status quo

8. As mentioned above and as outlined in the 1994 work plan and budget, GCO headquarters staff currently are located in New York and Geneva. While the Geneva staff focus on the vital European markets and on developing the markets in Eastern Europe, the Middle East and Africa, the New York staff perform similar functions, but for very different markets in the North and South America and Asia and the Pacific regions. Those markets, which have enormous potential, have very different needs. The current distribution of staff within GCO was established with those region-specific requirements in mind. While consolidating the two offices in one location could result in the reduction or downgrading of some posts, it possibly would be at the expense of lost revenue, declining service to partners and diminished attention to new market development.

Consolidation in New York

Financial costs

9. Merging the two offices could possibly result in the reduction or downgrading of approximately 20 posts (10 Professional and 10 General Service), with estimated annual savings in staff costs of $1.7 million, which, when added to the favourable rental costs in New York, would result in annual savings of approximately $4 million (see annex I). Those savings would be offset by one-time relocation costs for the staff whose posts would be redeployed and termination indemnity costs for the staff in abolished posts, totalling $1.6 million. There also would be one-time termination indemnity for Geneva General Service staff, estimated at $2.6 million.

Non-financial costs

10. As mentioned in paragraph 4 above, 25 of the 35 National Committees for UNICEF are based in Europe. GCO must work closely with the European National

Committees, which are vital partners. In fact, the GCO mission statement specifies that GCO raise funds for children, in partnership with National Committees, field offices and others. In addition, some 75 per cent of current GCO business is in Europe. Reducing the GCO presence in Geneva would send the wrong message to the National Committees about the importance of their partnership with and contribution to UNICEF, and could jeopardize their significant contribution to the organization.

Consolidation in Geneva

Financial costs

11. If the offices were consolidated in Geneva, the higher staff and rental costs would increase GCO annual expenses by approximately $900,000 (see annex I). There also would be one-time relocation costs for redeployed staff and termination indemnity costs for staff in abolished posts, estimated at $1.7 million (see annex II), in addition to one-time termination costs for General Service staff, estimated at $1.9 million (see annex III).

Non-financial costs

12. GCO is an integral part of the UNICEF external relations group and needs to be in close proximity to external relations and other divisions. GCO needs to maintain daily contact with the Programme Division, the Programme Funding Office and the divisions of Financial Management, Information and Public Affairs to ensure a coordinated approach to the funding of country programmes. In addition, all policy is to be made at New York headquarters, so the Director and appropriate senior staff must be based there.

13. Perhaps more importantly, although 75 per cent of current GCO business is in Europe, the fastest-growing markets with the greatest future potential are in North America, Asia and Latin America. GCO needs to maintain a presence in those regions, which is why the regional support centres have been established in Brazil and Singapore. While those support centres will provide functional, technical and financial support to the key markets in their respective regions, it is still essential that certain functions be maintained at headquarters.

Non-financial costs of consolidation at either location

14. Consolidating GCO in either New York or Geneva would cause considerable disruption of its work over a long period of time, putting UNICEF private-sector income at serious risk. The effectiveness of GCO has been demonstrated by the fact that its actual consolidated net operating income has consistently grown from $15.5 million in 1984 to $111.4 million in 1992.

15. In any case, GCO would need to maintain a liaison office at the location of the closed office to support partners in the region. The Executive Director is of the opinion that the operational autonomy of GCO must be protected regardless of its office location. In its approval of the Special Supplement Greeting Card Operation to the UNICEF Financial Regulations and Rules and in its acceptance of the separate commercial-style work plan and budget for GCO, the Executive Board has recognized and reiterated the need for this autonomy.

III. CONCLUSIONS AND RECOMMENDATION

16. The GCO budget and work plan, which provide detailed estimates of expenditure, staffing requirements and income, are reviewed annually by the Executive Board. In order to achieve the high-income goals mandated by the Board, GCO continuously reviews and monitors its staffing requirements and expenditures so as to ensure its cost-effectiveness and efficiency. In doing so, GCO must support its most important partners, the National Committees, both in markets where current income is high and in markets with important growth potential. Providing the National Committees with the support they require is necessary for GCO to meet the income goals established by the Executive Board. Supporting the National Committees in Europe, as well as in North and South America and Asia, requires a GCO presence both in Geneva and New York.

17. Therefore, the Executive Director recommends that the Executive Board approve the following draft decision:

The Executive Board

Decides that GCO, in the interest of providing the best service to its partners in optimizing income from the private sector for UNICEF-supported country programmes, continue to maintain staffing levels in New York and Geneva as outlined in the present report and as approved by the Executive Board in the 1994 work plan (E/ICEF/1994/AB/L.6).

ANNEX I

COMPARISON OF ANNUAL STAFF AND RENTAL COSTS OF CONSOLIDATED GCO OFFICES IN NEW YORK , CONSOLIDATED GCO OFFICES IN GENEVA AND WITH AN OFFICE EACH IN NEW YORK AND GENEVA BASED ON GCO 1994 BUDGET
(In millions of United States dollars)

						Annual estimated (increase) savings	
	Consolidated in Geneva	Consolidated in New York	Separate locations			Consolidation in Geneva vs. two locations	Consolidation in New York vs. two locations
			New York	Geneva	Total		
Rent a/	1.4	0.7	0.6	0.5	1.1	-0.3	0.4
Staff b/	17.8	13.6	7.7	7.8	15.5	-2.3	1.9
Subtotal	19.2	14.3	8.3	8.3	16.6	-2.6	2.3
Less: Salary costs of the posts that could be abolished	-1.7	-1.7				1.7	1.7
Revised total	17.5	12.6	8.3	8.3	16.6	-0.9	4.0

a/ Including operating costs.
b/ International Professional and General Service.

ANNEX II

CALCULATION OF ONE-TIME RELOCATION AND TERMINATION INDEMNITY COSTS RESULTING FROM A CONSOLIDATION OF GCO OFFICES

Relocation costs	New York	Geneva	Consolidation in New York	Consolidation in Geneva
			(In United States dollars)	
Number of Professional posts (per GCO 1994 work plan and budget)	41	36		
Less : Abolished posts resulting from a consolidation	5	5		
Remaining posts	36	31		
Estimated cost per staff member :				
If moved to New York: $26,000				
If moved to Geneva: $27,000				
Estimated relocation costs:				
If consolidated in New York (31 Geneva posts x $26,000)			806 000	
If consolidated in Geneva (36 New York posts x $27,000)				972 000
Add: Termination indemnity for the abolished posts			760 000	740 000
Total estimated costs for relocation and termination indemnity			1 566 000	1 712 000

ANNEX III

CALCULATION OF ONE-TIME TERMINATION INDEMNITY COSTS FOR GENERAL SERVICE STAFF RESULTING FROM A CONSOLIDATION OF GCO OFFICES

	New York	Geneva	Consolidation in New York	Consolidation in Geneva
			(In United States dollars)	
Number of General Service posts (per GCO 1994 work plan and budget)	48	44		
Average net salary (in United States dollars)	40 000	60 000		
Total termination indemnity:				
If consolidated in New York (44 posts x $60,000)			2 640 000	
If consolidated in Geneva (48 posts x $40,000)				1 920 000